Equitrans Midstream Big Dividend Set to Flow with MVP

Price $9.51 | **Dividend Holding** | **August 29, 2022**

- Top tier development asset with the Mountain View Pipeline (MVP) finally gaining support in the Senate after years of delays.
- MVP start up will cause cash flow and dividend to surge.
- Top tier 6.31% forward dividend yield, paying out $0.60 per share.
- 8 Bcf/d in gathering and transport capacity, with 7 connections to interstate pipelines.
- Pipelines have high-capacity utilization and return on invested capital.
- Strong delevering plan, supported by strong FCF generation capacity and long-length contracts.

Investment Thesis

Equitrans Midstream (ETRN) is one of the largest natural gas gathering and midstream firms in the United States, focused on the Marcellus and Utica shale areas.

Equitrans has recently had life rebreathed into its expansion plans after the Senate Democrats threw their weight behind Senator Joe Manchin's wishes to get the long-delayed Mountain Valley Pipeline (MVP) through the waist-deep litigation it finds itself in.

The MVP is a critically important piece of architecture for Equitrans and the region more broadly, connecting the very rich Utica and Marcellus regions to the Transco pipeline responsible for billions of cubic feet of gas transportation per day across the southeast and to Henry Hub

Equitrans expects that the addition of the MVP would add roughly $280 million in yearly incremental revenue by itself, with an additional $25 million added during the Equitrans Expansion Project (EEP), which is dependent on MVP's opening.

While all of these are still not guaranteed, we believe that this potentiality plus its top-of-the-sector dividends mean that Equitrans is at least a safe buy for dividend yield and potentially a good buy for capital appreciation as MVP comes online in 2023.

Project	Estimated Capital Deployment (in millions)	Estimated Annual Incremental Revenue (in millions)	Estimated Annual Incremental EBITDA (in millions)
Mountain Valley Project (MVP)	$3,400	$280	$220
Hammerhead	$540	$96	$75
Equitrans Expansion Project (EEP) includes various minor gathering/transmission projects	$140	$25	$20
Total	$4,080	$401	$315

Annual Incremental Revenue is calculated based on the provided incremental EBITDA numbers, and the TTM EBITDA margin 78.46%.

Equitrans Midstream (ETRN)	E2022	E2023	E2024
Price-to-Sales	3.0	2.8	2.6
Price-to-Earnings	18.1	14.7	8.6
EV/EBITDA	10.7	10.1	9.0

Gathering and Transmission Assets

Equitrans maintains a midstream footprint across the Marcellus and Utica Basins, spanning the area primarily in Pennsylvania and West Virginia. Across all serviced areas, Equitrans has approximately 8 billion cubic feet of natural gas per day (Bcf/d) in gathering capacity, with connections to 7 interstate pipelines allowing local producers access to Midwest, northeast, gulf, and southeast markets. Additionally, Equitrans has 43 Bcf of natural gas storage capacity across 18 storage pools.

Aside from the MVP, the Ohio Valley Connector Expansion Project ((OVCX)) is a $160 million investment set to come online in 1H24, adding 350 MMcf/d in capacity already with firm commitments up to 330 MMcf/d.

Hammerhead gathering pipeline is the newest online pipeline finished in 3Q20, bringing online 1.6 Bcf/d in capacity, with 1.2 Bcf/d committed for 20 years from EQT as part of a divestment agreement. The Hammerhead pipeline will connect to the MVP, giving the southeast market significant access to development assets in Pennsylvania.

MVP: Getting a Boost from Biden and Manchin

One of the largest development assets for Equitrans is a joint venture to create a 303-mile 2 Bcf/d pipeline called the Mountain Valley Pipeline (often called MVP). The pipeline is part of a large and growing gathering network in the Utica and Marcellus shale areas, with the MVP acting as the primary artery out of the area into Southeast markets. Equitrans midstream will operate the pipeline and own a 48.1% stake. MVP comes with significant bolt-on capacity, with a proposed Southgate expansion connecting to both the East Tennessee interstate line and into North Carolina, adding as much as 900 MMcf/d in capacity for $500 million in extra capital. It is clear that the MVP has some serious money making potential, and dividends could see a surge upon opening and as the pipeline comes into full operation in 2024.

In exchange for throwing his powerful vote behind the Democratic reconciliation bill, Senator Joe Manchin was granted party support for pushing the pipeline through. The pipeline has been sitting at 94% complete (according to ETRN) but has been stuck in lawsuits and a lengthy permitting process which has significantly delayed the completion by several years.

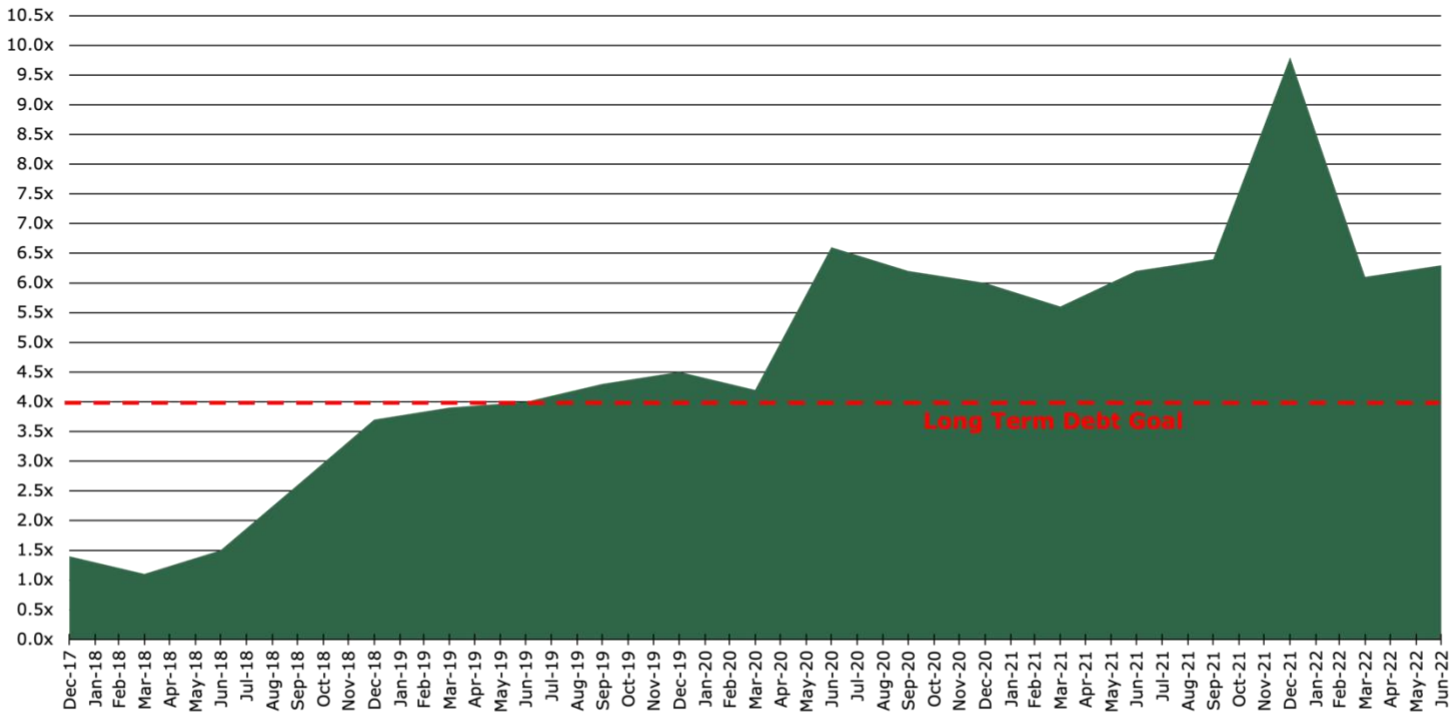
On August 25th, the US Federal Energy Regulatory Commission (FERC) has granted a long awaited 4-year extension to complete the pipeline. Part of the deal Manchin brokered includes so-called "shot clocks," setting caps on the time that federal regulators have to review environmental impacts, and limiting the scope of any outside requests for judicial reviews on projects.

Financial Health

Equitrans has a strong balance sheet, with a solid annual dividend of $0.60 per share. The long-term leverage target is sub 4.0x, currently sitting at 6.7x, which is more than reachable given the ample free cash in the Midstream market.

Once MVP is in service, greater than 70% of projected future revenue is forecasted to come from contracts deriving from the pipeline, with a current 14-year weighted average contract length for gathering, transmission, and storage.

Net Debt / EBITDA



Risk

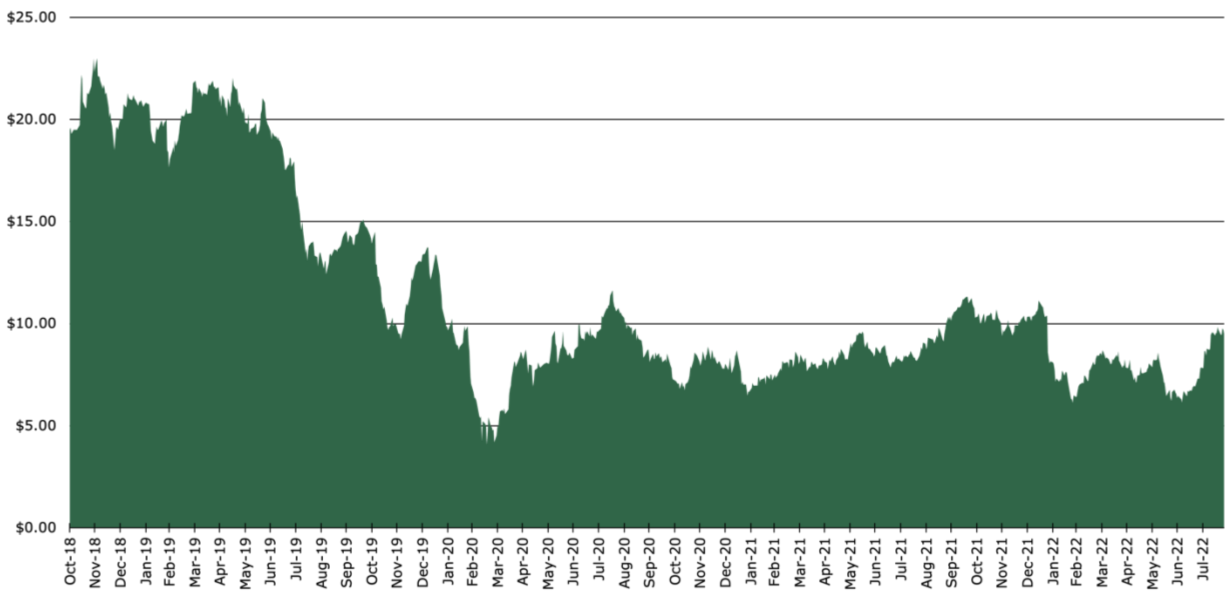
Much of our position on Equitrans relies on the fact that the MVP may be free of the fog, be that after much delay and going over budget. Should the MVP run into even further delays or cost overrides – or have to face the FERC extension board again – it could be eliminate the growth potential of Equitrans and cause the company to be overlevered. Equitrans remains hugely profitable, with a gross profit margin exceeding the sector average by over double, at 88.37% in 2Q22.

While Equitrans has committed to the reduction of carbon and methane emissions by half by 2040, the midstream business is particularly prone to disasters stemming from engineering failures. Should a pipeline burst, leak, or any other adverse environmental event it could spell disaster for any future development plans, or existing ones like the MVP.

Additional Comparisons

Estimated Next 12 Months	Dividend Yield	EV/EBITDA	Price-to-Sales	Price-to-Earnings
Equitrans Midstream (ETRN)	7.0%	10.3	2.9	16.0
ONEOK (OKE)	6.0%	11.2	1.2	15.9
Kinder Morgan (KMI)	5.9%	10.0	2.4	16.0
Williams Companies (WMB)	4.9%	10.7	3.8	21.5
Targa Resources (TRGP)	2.2%	8.0	0.6	13.9
Cheniere Energy (LNG)	0.9%	8.1	1.7	13.9
Antero Midstream (AM)	8.6%	9.2	5.4	14.2

Equitrans Midstream (ETRN)



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